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FM AMEMBASSY SAIGON

TO SECSTATE WASHDC 3899

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E.O. 11652: N/A

TAGS: ECRP ES

SUBJ: CERP 0003 - FIRST QUARTER, 1974 ECONOMIC REVIEW

I. GENERAL SITUATION AND TRENDS

THE FIRST QUARTER OF 1974 SAW A CONTINUATION OF THE REPID INFLATION THAT HAS PREVAILED OVER THE PAST TWO YEARS. IN FACT, THE RATE OF INFLATION ACCELERATED SOMEWHAT UNDER THE IMPACT OF SHARPLY HIGHER POL PRICES. ECONOMIC ACTIVITY CONTINUED TO STAGNATE. POL SHORTAGES AND HIGHER PRICES CONTRIBUTED TO THE GENERAL ECONOMIC SLOWDOWN IN A NUMBER OF AREAS, NOTABLY FISHING WHERE OPERATORS FOUND THEMSELVES UNABLE TO PASS ON HIGHER COSTS. THE GVN RESPONDED TO A WORSENING BALANCE OF PAYMENTS OUTLOOK WITH A NUMBER OF SEVERE CREDIT MEASURES DESIGNED TO CURTAIL IMPORTS. TAX COLLECTIONS CONTINUED TO RISE SHARPLY. WITH GENERAL MONETARY TIGHTNESS AND GROWING AWARENESS THAT THE REAL INTEREST RATE WAS NEGATIVE, THE RATE OF INCREASE IN BANK SAVINGS WAS WELL BELOW THE 1973 RATE. ON THE BRIGHTER SIDE, EARLIER REPORTS OF A RECORD 1973-74 RICE CROP APPEARED TO HAVE BEEN BORNE OUT. RICE DELIVERIES TO SAIGON WERE GOOD. THE PRICE OF RICE

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WAS SUBSTANTIALLY UNCHANGED DURING THE QUARTER. HOWEVER, RAPIDLY

RISING WORLD PRICE OF FERTILIZER THREATENED TO HAVE ADVERSE EFFECTS ON THE 1974-75 CROP.

II. INFLATION

CONSUMER PRICES, AS MEASURED BY THE USAID CONSUMER PRICE INDEX, ROSE 21 PERCENT DURING THE FIRST QUARTER, WHICH COMPOUNDED IS THE EQUIVALENT OF AN ANNUAL RATE OF 114 PERCENT. PRICES SHOWED THE NORMAL SEASONAL RUN-UP IN JANUARY, BUT INSTEAD OF THE USUAL POST-TET DROP, CONTINUED UPWARD IN REACTION TO THE POL PRICE INCREASES DECREED ON JAN 26. POL PRICES WERE RAISED BY 65 TO 140 PERCENT, DEPENDING ON PRODUCT TYPE, OR SLIGHTLY MORE THAN THE PER BARREL INCREASES EFFECTED BY THE OPEC COUNTRIES. GASOLINE WAS PRICED AT THE EQUIVALENT OF \$1.62 PER GALLON. A/ BESIDES THE POL PRODUCTS THEMSELVES, THE POL PRICE INCREASES AFFECTED THE PRICES OF A WIDE RANGE OF GOODS IN WHICH TRANSPORTATION COSTS ARE A FACTOR, INCLUDING FOOD PRODUCTS. SUBSEQUENT TO THE JAN 26 MEASURES, ON FEB 16, ELECTRICITY AND WATER RATES WERE RAISED BY 68 AND 33 PERCENT, RESPECTIVELY. APART FROM POL, THE PRICE INDEX WAS INFLUENCED BY A FURTHER 10 PERCENT DEVALUATION OF THE PIASTER (FROM 550 TO 605). RICE PRICES, NOTWITHSTANDING HIGHER TRANSPORTATION COSTS, WERE RELATIVELY STABLE DURING THE QUARTER. BOTH U.S. AND DOMESTIC RICE WERE VIRTUALLY UNCHANGED AT THE RETAIL LEVEL.

NOTE: A/ BY THE END OF THE QUARTER, FURTHER DEVALUATION HAD REDUCED THE DOLLAR EQUIVALENT TO \$1.47 PER GALLON.

III. IMPORT FUNDING AND BALANCE OF PAYMENTS

A. IMPORT FUNDING

1. U.S. AID - VIETNAM'S SHARE OF THE INDOCHINA RECONSTRUCTION FUNDING FOR FY 74 WAS ANNOUNCED AS \$300 MILLION, WHICH COMPARES WITH \$323 MILLION UNDER THE CONTINUING RESOLUTION AUTHORITY IN FY 73. FY 74 FUNDING WAS AUGMENTED BY THE \$50 MILLION DEVELOPMENT LOAN APPROVED AT THE START OF THE FISCAL YEAR FROM FY 1973 FUNDS. HOWEVER, GIVEN THE SPECTACULAR INCREASES IN IMPORT PRICES, MOST NOTABLY IN THE CRITICAL AREAS OF POL AND FERTILIZER, THE REAL LEVEL OF U.S. AID DECLINED SHARPLY. AT THIS WRITING, A REQUEST FOR \$54 MILLION FOR LIMITED OFFICIAL USE

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MILLION IN SUPPLEMENTAL FY 74 FUNDING IS UNDER CONSIDERATION BY CONGRESS.

AT THE END OF THE QUARTER, THE CIP FUNDING SITUATION WAS BECOMING CRITICAL. AT MARCH 30, CIP LICENSING FOR THE FISCAL YEAR TOTALLED \$232 MILLION AND ANOTHER \$41 MILLION HAD BEEN COMMITTED FOR POL LETTERS OF CREDIT OPENED IN DECEMBER, LEAVING \$50 MILLION AVAILABLE FROM FY 74 NOA, THE DLF LOAN, AND CARRYOVER. IN ADDI-

TION ANOTHER \$38 MILLION MUST BE PAID EITHER IN FY 74 OR EARLY IN FY 75 AGAINST POL L/CS OPENED IN MARCH, AND THERE IS AN URGENT NEED TO PROCURE SOME \$40 MILLION IN FERTILIZER. CONSIDERING THAT \$20 MILLION IS REGARDED AS THE MINIMUM PIPELINE CARRYOUT FOR OPERATING PURPOSES, IT IS CLEAR THAT CONTINUATION OF EVEN A MINIMUM CIP IMPORT PROGRAM DEPENDS UPON THE OUTCOME OF THE SUPPLEMENTAL FUNDING REQUEST.

2. P.L. 480 TITLE I - P.L. 480 (FOOD FOR PEACE) ASSISTANCE IS NOW ESTIMATED AS \$275 MILLION FOR CY 74. MUCH THE LARGEST ITEM IS RICE. THE PLANNED LEVEL OF 300,000 TONS OF RICE FOR THE FIRST HALF WILL COST ABOUT \$165 MILLION.

3. 3RD COUNTRY AID - OTHER DONOR AID PROSPECTS DIMMED SOMEWHAT DURING THE QUARTER. NEGOTIATIONS WERE COMPLETED FOR A FRENCH CREDIT TO INCLUDE SOME \$10 MILLION OF BALANCE OF PAYMENTS ASSISTANCE, AND AN AGREEMENT COVERING SOME \$27 MILLION OF BALANCE OF PAYMENTS ASSISTANCE FROM JAPAN WAS SIGNED ON MARCH 30, AFTER LONG NEGOTIATION. ON THE OTHER HAND, THE ACTION OF THE U.S. CONGRESS IN VOTING DOWN SUPPLEMENTAL FUNDING FOR THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) APPEARS TO HAVE DELAYED A \$50 MILLION CREDIT FROM THAT SOURCE, AND PROSPECTS FOR FURTHER ASSISTANCE FROM FRANCE AND JAPAN ARE NOW CLOUDED BY THE POL-RELATED BALANCE OF PAYMENTS DIFFICULTIES OF THOSE COUNTRIES.

4. PRIVATE INVESTMENT - A SIGNIFICANT DEVELOPMENT DURING THE QUARTER WAS THE APPROVAL GIVEN TO THE HYATT HOTEL CORP. TO BUILD A LUXURY HOTEL IN DOWNTOWN SAIGON.

A REVISED FRENCH PROPOSAL FOR A MAJOR EXPANSION OF CEMENT CAPACITY WAS BEING RE-STUDIED BY THE GVN AT THE END OF THE QUARTER. THE NEW FRENCH PROPOSAL IS NOW PRICED 27 PERCENT HIGHER (BECAUSE OF WORLD-WIDE COST INCREASES) THAN THE ORIGINAL, WHICH WAS ACCEPTED BY LIMITED OFFICIAL USE

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THE GVN IN 73 AND THEN SHELVED AMIDST CHARGES OF CORRUPTION.

THE MOST INTERESTING INVESTMENT ACTIVITY OF THE QUARTER, HOWEVER, CONCERNED OIL EXPLORATION. THE FOUR
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GVN DECIDED TO LEASE ADDITIONAL BLOCKS. AT THE END OF THE QUARTER,
33 FOREIGN OIL FIRMS HAD EXPRESSED INTEREST IN A NEW ROUND OF BIDDING

BIDS WILL BE OPENED IN MID-MAY.

B. BALANCE OF PAYMENTS AND EXCHANGE RESERVES

ALTHOUGH DOMINATED BY THE DROP IN REAL LEVELS OF EXTERNAL
ASSISTANCE, THE BALANCE OF PAYMENTS SHOWED SOME INTERESTING TRENDS
IN THE FIRST QUARTER, NOT ALL OF THEM UNFAVORABLE:

1. EXPORTS - EXPORT PAYMENTS AMOUNTED TO \$19.9 MILLION
FOR THE QUARTER, SOME \$1.5 MILLION ABOVE THE LEVELS OF THE THIRD AND
FOURTH QUARTERS OF 73 WHICH WERE FLAT.

2. INVISIBLES - BOTH INVISIBLE RECEIPTS AND PAYMENTS RAN
WELL AHEAD OF FORECAST IN THE FIRST QUARTER. RECEIPTS, WHICH TOTALLED
\$43.6 MILLION, APPEAR TO HAVE BENEFITTED FROM SIZEABLE INFLOWS OF
SHORT-TERM FUNDS. THESE APPEARED TO BE RELATED TO WORKING CAPITAL
NEEDS AND/OR PRIVATE GOLD EXPORTS. SOME \$14 MILLION OF U.S. CURRENCY
WAS RECEIVED IN TWO WEEKS BEGINNING LATE IN FEBRUARY, HALF OF WHICH
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WAS RECORDED IN OFFICIAL MARCH DATA, AND THE OTHER HALF OF WHICH
WILL APPEAR IN APRIL RECEIPTS. INVISIBLE PAYMENTS WERE \$29.2 MILLION
DURING THE FIRST QUARTER. THE FEBRUARY FIGURE WAS AN EXCEPTIONALLY
HIGH \$15 MILLION, ATTRIBUTED BY NBVN OFFICIALS TO PROFIT REMITTANCES
(WHICH ARE SEASONAL). ON BALANCE, INVISIBLES RESULTS HAVE BEEN
BETTER FORECAST THUS FAR THIS YEAR.

3. PIASTER PURCHASES - PIASTER PURCHASES AT THE NBVN
WERE ONLY \$4.6 MILLION IN THE FIRST QUARTER. THE FIGURE WAS LOW
BECAUSE OF USG "BORROWING" FROM A GVN USES ACCOUNT IN LIEU OF
PIASTER PURCHASES FROM THE NBVN. HAD THERE BEEN NO SUCH
"BORROWING", PIASTER PURCHASES WOULD HAVE REACHED \$27 MILLION, OR

SOMEWHAT IN EXCESS OF THE FORECAST RATE OF \$95 MILLION FOR CY 74. SINCE THESE "BORROWINGS" WILL BE REPAYED IN TIME, THE BANK COULD LEGITIMATELY CONSIDER THEM AS A DEFERRED RECEIPT IN ITS RESERVE ASSETS.

4. IMPORTS - GVN IMPORTS IN THE FIRST QUARTER TOTALLED \$58 MILLION, OR SOMEWHAT IN EXCESS OF THE RATE THAT CAN BE AFFORDED FOR THE FULL CALENDAR YEAR. THE FIRST QUARTER IS NORMALLY A SEASONAL HIGH POINT FOR IMPORTS, REFLECTING TET DEMAND. CIP IMPORT ARRIVALS HAVE CONTINUED TO LAG BEHIND FORECAST, REFLECTING CONTINUING SUPPLY SHORTAGES IN THE U.S., WHILE P.L. 480 IMPORTS REFLECTED EXCEPTION-ALLY HEAVY RICE SHIPMENTS. ON BALANCE, IMPORT PAYMENTS (ARRIVALS) HAVE REMAINED QUITE HIGH AS PAST AID AVAILABILITIES AND RESERVES HAVE BEEN DRAWN DOWN.

5. EXCHANGE RESERVES - OFFICIAL EXCHANGE RESERVES DECLINED FROM \$124.7 MILLION AT THE END OF 1973 TO \$83.8 MILLION ON MARCH 31. HOWEVER, \$22 MILLION OF THE \$40.9 MILLION DECLINE COULD BE ACCOUNTED FOR BY THE TEMPORARY USG PIASTER "BORROWING" DISCUSSED ABOVE, AND ANOTHER \$10.3 MILLION BY NET GVN POL PAYMENTS NOT YET REIMBURSED BY USAID. THE GVN RESPONDED BY IMPOSING FURTHER MEASURES TO REDUCE IMPORT DEMAND.

6. SUMMARY - THERE FOLLOWS A SUMMARY OF RESULTS FOR THE FIRST QUARTER, ALONG WITH THE LATEST PROJECTIONS FOR THE FULL YEAR. NOTE THAT GVN IMPORTS AS PROJECTED FOR THE FULL YEAR WILL DECLINE BY SOME 19 PERCENT, NOTWITHSTANDING A \$50 MILLION RESERVE DRAWDOWN.

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	1973	1974 1ST QTR	YEAR (PRELIMINARY) (PROJ.)
RECEIPTS			
EXPORTS	61	19.9	90
INVISIBLES	139	43.6	158
(OIL FEES)	(17)	--	(30)
(CURRENCY NOTES)	(20)	(7.6)	(16)
(OTHER)	(102)	(36.0)	(112)
PIASTER PURCHASES	91	4.6	95
DIRECT DOLLARS	37	--	15
TOTAL	328	68.1	358
PAYMENTS			
GVN IMPORTS	281	57.8	228
AID FREIGHT	32	14.4	65
INVISIBLES	78	29.2	95
NET POL PAYMENTS	16	10.3	1/ 20

TOTAL	407	111.7	408
STATISTICAL DISCREPANCY	-2	-2.7	--
CHANGE IN RESERVES	-79	-40.9	-50
(OF WHICH: NBVN)	(-77)		(-50)

1/ GVN POL PAYMENTS MINUS REIMBURSEMENTS BY USAID/CIP.

IV. ECONOMIC POLICY MEASURES

ECONOMIC POLICY IN THE FIRST QUARTER HAS BEEN DOMINATED BY THE INCREASE IN POL PRICES AND THE NECESSITY TO BRING IMPORTS BACK INTO LINE AS THE BALANCE OF PAYMENTS DETERIORATED.

1. POL POLICY - THE SECOND ROUND OF OPEC PRICE INCREASES AT THE OUTSET OF JANUARY MEANT THAT THE GVN WOULD HAVE TO PAY OVER \$200 MILLION FOR THE AMOUNT OF POL PRODUCTS WHICH COST \$80 MILLION IN 1973. INITIAL PRICE INCREASES AND DIRECT MEASURES TO CURTAIL CONSUMPTION HAD ALREADY BEEN TAKEN IN NOVEMBER, BUT A FURTHER ROUND OF PRICE INCREASES - RANGING FROM 65 TO 140 PERCENT - WAS DECREED ON JAN 26. THE AIM WAS A REDUCTION IN COMSUMPTION AVERAGING 25
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PERCENT, DIVIDED APPROXIMATELY AS FOLLOWS: KEROSENE, 40 PERCENT, GASOLINE, 25 PERCENT, DIESEL FUEL AND BUNKER C FUEL, 5 PERCENT. THE GASOLINE AND KEROSENE PRICES INCREASES APPAR TO HAVE ACCOMPLISHED ABOUT WHAT WAS INTENDED. THE INCREASE FOR KEROSENE, IN PARTICULAR, HAS PROVOKED LARGE-SCALE SWITCHING TO USE OF CHARCOAL AND FIREWOOD IN COOKING. THE DIESEL PRICE INCREASE, ON THE OTHER HAND, HAD MORE THAN THE INTENDED EFFECT. WITH THE PRICE RISING FROM 68 TO 125 PIASTERS A LITER, AT LEAST HALF THE POWER FISHING BOATS IN THE COUNTRY CEASED OPERATING; IT HAD SOON APPEARED THAT THE HIGHER OPERATING COSTS COULD NOT BE PASSED ON IN THE FORM OF HIGHER FISH PRICES. HIGHER TRANSPORTATION COSTS WERE HAVING WIDESPREAD PRICE EFFECTS IN OTHER AREAS, ESPECIALLY LOGGING, ANOTHER KEY EXPORT INDUSTRY. IT BECAME APPARENT THAT APART FROM DECLINING PRODUCTION AND RISING UNEMPLOYMENT, ONE RESULT OF THE DIESEL PRICE INCREASE WOULD BE A LOSS OF POTENTIAL EXPORT EARNINGS IN EXCESS OF THE IMPORT SAVING THAT COULD BE GAINED. ACCORDINGLY, ON MARCH 14 THE GVN LOWERED THE PRICE TO 95 PIASTERS/LITER, AT WHICH LEVEL IT IS UNDERSTOOD MOST FISHERMEN HAVE RETURNED TO WORK.

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2. EXCHANGE RATE - THE OFFICIAL RATE WAS MOVED IN FOUR STEPS - FROM 550 AT YEAR-END TO 605 BY THE END OF MARCH, FOR A TOTAL DEVALUATION DURING THE QUARTER OF 10 PERCENT. MEANWHILE, THE SPECIAL RATE FOR AID-FINANCED GOODS (455 AT YEAR-END) WAS ABOLISHED IN FAVOR OF A SYSTEM OF REBATES, WITH THE AMOUNT OF THE REBATE INITIALLY SET AT 85 PIASTERS TO THE DOLLAR. BY THE END OF THE QUARTER THE REBATE HAD NARROWED TO 60, MAKING AN EFFECTIVE DEVALUATION ON THE AID RATE OF 20 PERCENT SINCE YEAR-END.

3. IMPORT AND CREDIT RESTRICTIONS - IN ORDER TO BRING IMPORT DEMAND IN LINE WITH FUNDING AVAILABILITIES, THE GVN HAS IMPOSED A NUMBER OF RESTRICTIVE MEASURES DURING THE COURSE OF THE FIRST QUARTER:

A. IMPORT CONTROLS - IN A SERIES OF MEASURES AIMED AT RESTRICTING IMPORT DEMAND, THE GVN:

- ON FEBRUARY 9, ABOLISHED THE EXCHANGE RATE GUARANTEE ON CIP IMPORTS.

- ON FEBRUARY 12, PROHIBITED COMMERCIAL BANKS FROM FINANCING MORE THAN 50 PERCENT OF GOODS ON GVN LISTS A & B ("VERY ESSENTIAL" AND "ESSENTIAL") AND PROHIBITED ANY FINANCING OF GOODS ON LISTS C & D.

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- ON MARCH 11, LIMITED TO 70 PERCENT THE SHARE OF CIP LICENSES THAT COULD BE BANK FINANCED.

- ON MARCH 15, DECREED A 12-MONTH TIME LIMIT BETWEEN THE TIME OF LICENSING AND DATE OF ARRIVAL OF CIP IMPORTS,

AFTER WHICH THE LICENSES WOULD BE CANCELLED.

- ON MARCH 22, ABOLISHED THE EXCHANGE RATE GUARANTEE
ON GVN IMPORTS.

B. ADDITIONAL CREDIT MEASURES - IN ORDER TO PRECLUDE
IMPORTERS FROM MAKING IMPORT LOANS UNDER OTHER GUISES, THE IMPORT
CREDIT MEASURES WERE BACKED UP BY A SERIES OF GENERAL CREDIT REGU-
LATIONS, ANNOUNCED ON FEBRUARY 26. THE NEW RESTRICTIONS APPLIED TO
THE USE OF OVERDRAFTS, CURRENT ACCOUNT AND WORKING CAPITAL LOANS,
TRADE BONDS AND PERSONAL LOANS. ALTHOUGH THE MEASURES ARE GENERAL
IN APPLICATION, IMPORTERS ARE SPECIFICALLY IDENTIFIED AS INELIGIBLE
FOR WORKING CAPITAL LOANS AND OVERDRAFT FACILITIES IN EXCESS OF VN\$
100,000. SEVEN-DAY SETTLEMENT IS REQUIRED FOR OVERDRAFTS, AND
ROLLING THEM OVER IS NOT PERMITTED. PERSONAL LOANS OVER VN\$
1,000,000 MUST BE APPROVED BY THE NBVN IF NOT SECURED BY EITHER
TIME DEPOSITS OR TREASURY BONDS. UNDER SPECIAL CONDITIONS,
CURRENT ACCOUNT FINANCING FOR TRADERS AND ENTERPRISES, EXCEPT
IMPORTERS, IS LIMITED TO VN\$ 3,000,000.

4. EXPORT SUBSIDY - ON MARCH 22, IT WAS ANNOUNCED THAT THE
SO-CALLED "INTEREST RATE SUBSIDY" (ACTUALLY A PIASTER SUM PAID ON
EACH DOLLAR OF EXPORTS) WOULD BE DOUBLED, FROM 6.5 TO 13.0 PERCENT,
FOR A RESTRICTED LIST OF COMMODITIES MOST AFFECTED BY THE POL
PRICE INCREASES. THE INCREASED SUBSIDY, WHICH BECAME EFFECTIVE
SUBSEQUENT TO THE END OF THE QUARTER, WILL APPLY TO FISH PRODUCTS,
LOGS AND PERHAPS A FEW OTHER COMMODITIES CONSIDERED TO BE MOST
AFFECTED BY POL PRICE INCREASES.

V. EFFECT OF CREDIT MEASURES: BUSINESS CONDITIONS
IMPORT DEMAND HELD UP WELL THROUGH MOST OF THE QUARTER BUT
APPEARED TO BE WEAKENING UNDER THE IMPACT OF THE RESTRICTIVE
MEASURES BY THE END OF MARCH. BOTH GVN L/C OPENINGS AND CIP
LICENSING FELL BELOW \$4 MILLION FOR THE WEEK ENDED MARCH 30,
WHICH COMPARES WITH WEEKLY RATES OF \$5.0 MILLION (GVN AND
\$4.6 MILLION (CIP) FOR THE FIRST NINE MONTHS OF THE FISCAL YEAR.
DEMAND WAS GENERALLY BELIEVED TO BE SPECULATIVE IN NATURE AND
NOT A REFLECTION OF IMPROVED BUSINESS CONDITIONS. BUSINESS INVEN-
TORIES CONTINUED TO RISE DURING THE QUARTER, AS REFLECTED PARTLY
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IN CIP BANK WAREHOUSE STATISTICS AND AS GENERALLY REPORTED BY
BANKERS AND BUSINESSMEN. CONTINUED IMPORT DEMAND IN THE FACE OF
RISING INVENTORIES TENDED TO SUPPORT THE NOTION OF A MOVE AWAY
FROM CASH AND INTO COMMODITIES. PRODUCTION STATISTICS, THOUGH
NOT AVAILABLE BEYOND THE YEAR-END, INDICATED A CONTINUATION OF
THE ECONOMIC DECLINE IN THE FOURTH QUARTER. THE LUMBER,
LIVESTOCK, CONSTRUCTION, AND MOST MANUFACTURING INDUSTRIES SHOWED
LOWER RATES OF ACTIVITY, WHILE ONLY CEMENT, FISHING AND RICE
DELIVERY INDUSTRIES, OF THOSE ON WHICH DATA WERE AVAILABLE,
COULD BE SAID TO HAVE SHOWN IMPROVEMENT. THE RISE IN CEMENT
PRODUCTION, IN THE FACT OF DECLINING CONSTRUCTION ACTIVITIES,

REFLECTED DECLINING IMPORTS AND A NEED TO REBUILD STOCKS. GIVEN SUPPLY SHORAGES, SHARPLY HIGHER POL PRICES, AND TIGHTER MONETARY POLICIES, IT IS LIKELY THAT A GENERAL DOWNWARD TREND PERSISTED THROUGHOUT THE FIRST QUARTER, 1974. THE NEW CREDIT MEASURES, IN PARTICULAR, WERE PROVING SO DIFFICULT FOR MANUFACTURING FIRMS AND BANKS ALIKE, THAT AN EASING OF THE RESTRICTIONS WAS UNDER CONSIDERATION. NOT ENTIRELY RESOLVED AT THE END OF THE QUARTER, EITHER, WAS THE QUESTION OF WHETHER THE NEW MEASURES WERE MEANT TO APPLY TO CREDIT FOR DEVELOPMENT ACTIVITIES AND EXPORTS.

OUTSIDE OF MANUFACTURING, THE GOOD RICE CROP AND HIGH RATE OF DELTA DELIVERIES COULD BE COUNTED A DEFINITE PLUS FACTOR. ON THE OTHER HAND, FISHING AND LOGGING WERE OFF IN REACTION TO POL SHORTAGES AND HIGH PRICES. THE MARCH 14 ROLLBACK IN DIESEL FUEL PRICES HAS ALREADY PROVIDED RELIEF IN THESE AREAS.

VI. FISCAL POLICY

THE GVN HAS CONTINUED TO PURSUE A VIGOROUSLY RESTRICTIVE FISCAL POLICY ON BOTH THE EXPENDITURE AND REVENUE SIDES.

1. EXPENDITURES - EXPENDITURES HAVE BEEN TARGETED AT VN\$ 581 BILLION. THE LEGISLATURE REPORTED OUT A BUDGET OF ONLY VN\$ 561 BILLION, BUT IT HAD SLASHED SOME STATUTORY EXPENDITURES, SUCH AS VETERANS BENEFITS, WHICH MUST STILL BE FUNDED. NEVERTHELESS, THE VN\$ 581 STILL REPRESENTS A SIZEABLE REDUCTION FROM THE DGBFA RECOMMENDED BUDGET OF VN\$ 630 BILLION. ACTION ON A PUBLIC SECTOR WAGE INCREASE AND ON A PREVIOUSLY CONSIDERED VN\$ 40 BILLION SUPPLEMENTARY DEVELOPMENT PROGRAM WAS DEFERRED. ECONOMIES IN THE FORM OF EMPLOYMENT CUTBACKS AND DEFERRED EXPENDITURES ARE EXPECTED TO ALLOW REPROGRAMMING OF UP TO VN\$ 20 BILLION IN THE LIMITED OFFICIAL USE

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CY 1974 BUDGET TO DEVELOPMENT PROGRAMS.

2. REVENUES - TAX REVENUES, MEANWHILE, HAVE RUN FAR AHEAD OF 1973 LEVELS. DGT COLLECTIONS IN THE FIRST QUARTER REACHED VN\$ 70 BILLION, OR 141 PERCENT HIGHER THAN IN JANUARY-MARCH 1973. THE MAIN FACTORS IN THE INCREASES WERE THE VALUE ADDED TAX (VAT), NOT IN EFFECT

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A YEAR AGO, AND SOME VN\$ 22 BILLION IN REVENUES FROM POL TAXES.

VII. MONETARY DEVELOPMENTS

AS OF MARCH 16, MONEY SUPPLY (CURRENCY PLUS PRIVATE SECTOR DEMAND DEPOSITS) WAS VN\$ 269 BILLION. AFTER ADJUSTMENT OF REFLECT A RECLASSIFICATION OF CERTAIN DEPOSITS OF SEMI-AUTONOMOUS PUBLIC AGENCIES PREVIOUSLY SHOWN AS PUBLIC SECTOR DEPOSITS AND THEREFORE OUTSIDE OF THE MONEY SUPPLY, THIS REPRESENTED A DECLINE OF VN\$ 4 BILLION FROM THE END-1973 LEVEL. MONEY SUPPLY IS NORMALLY LOWEST AT MID-MONTH PRIOR TO THE MONTHLY PAYMENT OF PUBLIC SECTOR WAGES, SO THE DECLINE MAY PROVE VERY BRIEF; NEVERTHELESS, AS THE QUARTER ENDED ALL SIGNS POINTED TO CONTINUATION OF EXTREME TIGHT MONEY CONDITIONS: FISCAL RESTRAINT AND STRONG TAX COLLECTIONS, TIGHT CREDIT RESTRAINTS, AND A HIGH LEVEL OF FIRST QUARTER IMPORTS (IN CURRENT DOLLAR TERMS). MONETARY TIGHTNESS WAS REFLECTED IN THE CONTINUED ABSENCE OF A BLACK MARKET PREMIUM ON THE DOLLAR AND MAY HAVE CONTRIBUTED TO THE LARGE RECEIPTS IN U.S. CURRENCY BY THE BANKING SYSTEM IN THE FIRST QUARTER.

AS OF MARCH 16, COMMERCIAL BANK SAVINGS AND TIME DEPOSITS, ADJUSTED TO REFLECT THE SAME RECLASSIFICATION AS MENTIONED ABOVE, HAD RISEN VN\$ 6.5 BILLION FROM THE YEAR-END LEVEL. THE RATE OF LIMITED OFFICIAL USE

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INCREASE WAS UP FROM THE VN\$ 3.4 BILLION INCREASE IN THE FOURTH QUARTER, BUT WELL BELOW THE VN\$ 35 BILLION INCREASE FOR ALL OF 1973. A LEVELING IN SAVINGS DEPOSITS COULD BE ANTICIPATED AS ONE RESULT OF THE MONETARY SQUEEZE - INDIVIDUALS AND BUSINESSMEN DIPPING INTO SAVINGS AS THEIR CASH REQUIREMENTS ROSE WITH RISING

PRICES. THE CONTINUED AND INCREASINGLY NEGATIVE REAL RATE OF INTEREST MIGHT ALSO BE A FACTOR.

THE MONETARY OUTLOOK FOR THE REMAINDER OF THE YEAR IS HARDER THAN USUAL TO ASSESS. TWO FACTORS, TAX COLLECTIONS AND THE LEVEL OF CIP IMPORTS, ARE UNCOMMONLY HARD TO FORECAST. ON THE BASIS OF CURRENT POLICY TRENDS, THE FIRST HALF WILL SEE VERY LITTLE IF ANY INCREASE IN MONEY SUPPLY. THE SITUATION WILL SHIFT, BECOMING INCREASINGLY INFLATIONARY LATER IN THE YEAR, AS REDUCED LEVELS OF IMPORT FUNDING BRING THE INEVITABLE DECLINE IN IMPORT PAYMENTS.

VIII. RICE POLICY

THE 1973-1974 RICE CROP MAY HAVE BEEN THE BEST EVER, TOTALLING PERHAPS 6.5 MILLION METRIC TONS OF PADDY. DELIVERIES OF MILLED RICE FROM THE DELTA AREA TO SAIGON AND CENTRAL VIETNAM TOTALLED 206,000 MT FOR THE FIRST QUARTER AND ARE LIKELY TO MAINTAIN A MONTHLY RATE OF 50-60,000 MT THROUGH JUNE.

THE PRINCIPAL PROBLEM NOW FACING FARMERS AND POLICY MAKERS IS THE AVAILABILITY AND PRICE OF FERTILIZER. FURTHER INCREASES IN RICE PRODUCTION CANNOT BE EXPECTED UNLESS THE GROWING DIVERGENCE BETWEEN PADDY AND FERTILIZER PRICES IS HALTED. WHEN A FARMER SELLS A KILO OF PADDY NOW, HE CAN BUY ABOUT ONE-HALF KILO OF FERTILIZER VERSUS A FULL KILO DURING 1973 AND TWO KILOS DURING 1972. ASSUMING FERTILIZER CAN BE BOUGHT FROM ABROAD, FAILURE TO IMPROVE THE RATIO WILL MOVE THE COUNTRY FURTHER AWAY FROM SELF-SUFFICIENCY AND TOWARD GREATER DEPENDENCE ON RICE IMPORTS. ON THE OTHER HAND, THE GOVERNMENT MUST WEIGH THE IMPACT OF HIGHER RICE PRICES ON ALREADY SEVERELY STRAINED FAMILY BUDGETS. NOTWITHSTANDING THE FACT THAT THE PRICE OF RICE IN VIETNAM IS ONLY ABOUT ONE-HALF OF THE PREVAILING WORLD PRICE, IT IS NONETHELESS TRUE THAT A WORKER WITH A WIFE AND THREE CHILDREN SPENDS ONE-FOURTH TO A THIRD OF HIS INCOME ON RICE.

ON MARCH 6 THE GVN ANNOUNCED AN INCREASE IN THE OFFICIAL SELLING PRICE OF U.S. RICE, FROM 140 PIASTERS/KILO TO 165. SIMULTANEOUSLY, THE RICE ALLOWANCE FOR CIVIL SERVANTS AND THE MILITARY WAS RAISED BY 500 PIASTERS TO 3,500 PIASTERS PER MAN PER MONTH.

ABOUT 200,000 MT OF THE 284,000 MT OF P.L. 480 RICE IMPORTS LIMITED OFFICIAL USE

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SCHEDULED FOR DELIVERY FROM JANUARY TO JULY 1974 HAVE ALREADY ARRIVED. NATIONAL FOOD ADMINISTRATION 1974 CONTRACTS FOR DELTA RICE DELIVERIES TO GOVERNMENT WAREHOUSES TOTALLED ROUGHLY 45,000 MT AT THE END OF MARCH. NFA STOCKS AT THE END OF MARCH WERE 203,000 MT. DECON 12/31/74.
MARTIN

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